

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Montrose	County Genesee
Fiscal Year End June 30, 2007	Opinion Date November 14, 2007	Date Audit Report Submitted to State November 28, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

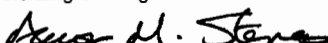
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number (517) 351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**City of Montrose
Genesee County, Michigan**

FINANCIAL STATEMENTS

June 30, 2007

City of Montrose
Genesee County, Michigan
CITY COUNCIL
June 30, 2007

Eldon Dunklee	Mayor
Deborah Gross	Mayor Pro-Tem
Frank DeForke	Council Member
Norville Landes	Council Member
Gene Powell	Council Member
Candy LaMay	Council Member
Scott Parks	Council Member

City of Montrose
Genesee County, Michigan

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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Montrose
Montrose, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montrose, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Montrose's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montrose, Michigan as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the City of Montrose's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 14, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

The following is a discussion and analysis of City of Montrose's (the City's) financial performance and position, providing an overview of the activities for the fiscal year ended June 30, 2007. This analysis should be read in conjunction with the *Independent Auditors Report* and with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- Total net assets were \$4,196,988 (excluding component units).
- Governmental activities net assets were \$1,333,661.
- Business-type activity net assets were \$2,863,327.
- Component Unit net assets were \$194,097.

Fund Level:

- At the close of the fiscal year, the City's governmental funds reported a combined ending fund balance of \$646,479 with \$195,251 being reserved, designated, or otherwise earmarked for specific purposes (capital projects, debt service).
- The General Fund realized \$5,663 less in revenues and other financing sources than anticipated for the fiscal year. The General Fund operations expended \$17,613 less than appropriated.
- Overall, the General Fund balance decreased by \$18,635 to \$183,690 - of which \$126,492 is undesignated and available for general purposes.

Capital and Long-term Debt Activities:

- The total long-term debt for the primary government was \$1,834,795, a decrease of \$97,265 from the prior year.
- The City remains well below its authorized legal debt limit.
- The total additions to the capital asset schedule for the primary government were \$580,806 and included the completion of the Downtown Alley/Depot Land Project, and the Depot Building Restoration Project, which is in progress. Also included were improvements to the City's storm drain system for Park and Maple Street Projects and the construction of the sanitary sewer lines in the Park Street Project, which are in progress.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's annual financial report. The annual financial report of the City consists of the following components: 1) *Independent Auditor's Report*; 2) *Management's Discussion and Analysis* and 3) the *Basic Financial Statements* (government-wide financial statements, fund financial statements, notes to the financial statements), 4) *Required Supplementary Information* such as budget to actual comparisons for the General Fund and major Special Revenue Funds, and 5) *Other Supplementary Information* including combining financial statements for all nonmajor governmental funds and other funds and other financial data.

Government-wide Financial Statements (Reporting the City as a Whole)

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the City as a whole, and about its activities. Their purpose is to assist in answering the question, is the City, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all nonfiduciary assets and liabilities, are reported on the *accrual basis of accounting*, similar to a private business. This means revenues are accounted for when they are *earned* and expenses are accounted for when *incurred*, regardless of when the actual cash is received or disbursed.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

The Statement of Net Assets (page 1) presents all of the City's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the City's financial position is improving or deteriorating.

The Statement of Activities (page 2) presents information showing how the City's net assets changed during 2006/2007. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenue and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee vacation leave.

Both statements report the following activities:

- **Governmental Activities** - Most of the City's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the City's general government departments, public safety, public works, economic development, city improvements, recreation activities, and other City wide elected official operations are reported under these activities.
- **Business-type Activities** - These activities operate like private businesses. The City charges fees to recover the cost of the services provided. The Sewer System and Water System are examples of these activities.
- **Discretely Presented Component Unit** - The discretely presented component unit (Downtown Development Authority) is a legally separate organization for which the City Council and Administration appoints a majority of the organization's policy board and there is a degree of financial accountability to the City.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 5 and 8 present reconciliations between the two statement types. The following summarizes the impact of transitioning from modified accrual to full accrual accounting:

- Capital assets used in governmental activities (depreciation) are not reported on the fund financial statements of the governmental fund. Capital assets and depreciation expense are reported on the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the fund financial statements of the governmental funds.
- Long-term liabilities, such as amounts accrued for sick and annual leave (compensated absences), etc. appear as liabilities on the government-wide statements; however they will not appear on the fund financial statements unless current resources are used to pay a specific obligation.
- Long-term debt proceeds are reported as liabilities on the government-wide statements, but are recorded as other financing sources on the fund financial statements.

Fund Financial Statements (Reporting the City's Major Funds)

The fund financial statements, which begin on page 3, provide information on the City's significant (major) funds, and aggregated nonmajor funds. A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for City of Montrose include the General Fund, the Local Street Fund, the Major Street Fund, the Downtown Projects Fund, the Sewer System Fund and the Water System Fund. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type.

The City's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

- **Governmental Funds** - Most of the City's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City's programs. Governmental funds include the *General Fund*, as well as *Special Revenue Funds* (use of fund balance is restricted, e.g. major street, local street, and depot funds), *Capital Projects Funds* (used to report major capital acquisitions and construction, e.g. the Capital Projects Fund), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest e.g. voted bonds and non-voted bonds funds).
- **Proprietary Funds** - Services for which the City charges customers (whether outside the City structure or a City department) a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. An example is the Sewer System Fund. *Internal Service funds* report activities of services to municipal departments by a given budgetary center. An example might be a Motor Pool Fund. The city presently does not employ this type of proprietary fund.
- **Fiduciary Funds** - The City may act as a trustee or fiduciary in certain instances. It is also responsible for other assets that, because of trust arrangements, can only be used for the trust beneficiaries. The City's fiduciary activities are reported in the separate Statement of Net Assets on page 12. These funds, which include trust and agency funds, are reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the City to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 13 of this report.

Required Supplementary Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes budgetary comparison schedules for the General Fund and the major special revenue funds.

Other Supplementary Information

Other Supplementary Information includes combining financial statements for nonmajor governmental funds. These funds are added together and are presented in aggregate single columns in the appropriate basic financial statements.

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

As previously stated, City of Montrose combined net assets were \$4,196,988 at the end of this fiscal year's operations. The net assets of the governmental activities were \$1,333,661; the business-type activities were \$2,863,327.

Net Assets as of June 30, 2007 and 2006

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$ 793,935	\$ 1,279,950	\$ 1,377,548	\$ 1,490,564	\$ 2,171,483	\$ 2,770,514
Capital Assets	<u>1,710,863</u>	<u>1,320,492</u>	<u>2,253,890</u>	<u>2,235,902</u>	<u>3,964,753</u>	<u>3,556,394</u>
Total Assets	\$ 2,504,798	\$ 2,600,442	\$ 3,631,438	\$ 3,726,466	\$ 6,136,236	\$ 6,326,908
Current Liabilities	\$ 143,209	\$ 172,328	\$ 92,901	\$ 136,780	\$ 236,110	\$ 309,108
Noncurrent Liabilities	<u>1,027,928</u>	<u>1,109,809</u>	<u>675,210</u>	<u>719,914</u>	<u>1,703,138</u>	<u>1,829,723</u>
Total Liabilities	\$ 1,171,137	\$ 1,282,137	\$ 768,111	\$ 856,694	\$ 1,939,248	\$ 2,138,831
Net Assets						
Invested in Capital Assets (Net of related debt)	\$ 604,953	\$ 149,833	\$ 1,543,890	\$ 1,490,902	\$ 2,148,843	\$ 1,640,735
Restricted	458,443	830,041	77,517	70,392	535,960	900,433
Unrestricted	<u>270,265</u>	<u>338,431</u>	<u>1,241,920</u>	<u>1,308,478</u>	<u>1,512,185</u>	<u>1,646,909</u>
Total Net Assets	\$ 1,333,661	\$ 1,318,305	\$ 2,863,327	\$ 2,869,772	\$ 4,196,988	\$ 4,188,077

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City's primary government net assets changed during the fiscal year:

Changes in Net Assets for the Fiscal Year Ending June 30, 2007 and 2006

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Revenues						
Program Revenues						
Charges for Services	\$ 115,770	\$ 212,452	\$ 570,740	\$ 576,829	\$ 686,510	\$ 789,281
Grants and Contributions	166,843	203,008	80,788	78,084	247,631	281,092
General Revenues						
Property Taxes	424,445	402,946	-	-	424,445	402,946
State Shared Revenue	190,005	191,875	-	-	190,005	191,875
Investment Earnings	12,566	13,016	46,715	41,784	59,281	54,800
Miscellaneous	<u>3,393</u>	<u>50,943</u>	<u>741</u>	<u>624</u>	<u>4,134</u>	<u>51,567</u>
Total Revenues	913,022	1,074,240	698,984	697,321	1,612,006	1,771,561

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Changes in Net Assets for the Fiscal Year Ending June 30, 2007 and 2006 - continued

	Governmental Activities		Business-type Activities		Total	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Expenses						
General Govt.	\$ 208,747	\$ 371,345	\$ -	\$ -	\$ 208,747	\$ 371,345
Public Safety	338,329	274,446	-	-	338,329	274,446
Public Works	263,067	216,112	-	-	263,067	216,112
Community and Economic Develop.	21,744	13,640	-	-	21,744	13,640
Recreation and Cultural	19,555	19,713	-	-	19,555	19,713
Other	<u>46,224</u>	<u>36,005</u>	<u>705,429</u>	<u>673,500</u>	<u>751,653</u>	<u>709,505</u>
Total Expenses	<u>897,666</u>	<u>931,261</u>	<u>705,429</u>	<u>673,500</u>	<u>1,603,095</u>	<u>1,604,761</u>
Change in Net Assets	15,356	142,979	(6,445)	23,821	8,911	166,800
Net Assets - Beginning	<u>1,318,305</u>	<u>1,175,326</u>	<u>2,869,772</u>	<u>2,845,951</u>	<u>4,188,077</u>	<u>4,021,277</u>
Net Assets - Ending	<u>\$ 1,333,661</u>	<u>\$ 1,318,305</u>	<u>\$ 2,863,327</u>	<u>\$ 2,869,772</u>	<u>\$ 4,196,988</u>	<u>\$ 4,188,077</u>

Governmental Activities:

The result of 2006/2007 governmental activity was an increase of \$15,356 in net assets to \$1,333,661. Of the total governmental activities' net assets, \$604,953 is invested in capital assets less related debt, \$458,443 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute, or by another authority outside the City government. The balance of \$270,265 is listed as unrestricted.

Revenues:

The three largest revenue categories were property taxes at 46.5%, State Shared Revenue at 20.8%, and grant and contributions at 18.3%. The City levied a property tax millage for the year ended June 30, 2007, for general government operations at 17.1776 mills, which is not assigned to any particular activity. State Shared Revenue, the second largest source of governmental activity revenue, is not assigned to any particular activity. Grants and contributions revenue, the third largest source of governmental activity revenue, are assigned to particular functional activities.

Expenses:

Public Safety is the largest area, expending approximately 37.7% of the governmental activities total on law enforcement, fire protection and code enforcement. Public Works expended approximately 29.3% of the governmental activities total and would be higher if capital outlay charged to this function in the funds were not shown as capital assets in the government-wide financial statements. General government is the third largest governmental activity, expending approximately 22.3% of the governmental activities total and includes general government departments (e.g., council, community promotions, city manager, elections, general administration, assessor, and city hall maintenance).

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Business-type Activities:

Net assets in business-type activities decreased by \$6,445 during the 2006/2007 fiscal year. Of the business-type activities' net assets, \$1,543,890 is invested in capital assets net of related debt; \$77,517 is reported as restricted, meaning these assets are legally committed for a specific purpose through statute or by another authority outside the City government, and the balance of \$1,241,920 is listed as unrestricted, having no legal commitment.

FINANCIAL ANALYSIS OF THE CITY'S MAJOR AND NONMAJOR FUNDS

As the City completed 2006/2007, its governmental funds reported *combined* fund balances of \$646,479. This is a net decrease of \$403,051. The net changes are summarized in the following chart:

	General Fund	Local Street	Major Street	Downtown Development Projects	Nonmajor Governmental Funds	Total Governmental Funds
Fund Balance 06/30/06	\$ 202,325	\$ 113,291	\$ 214,610	\$ 339,101	\$ 180,203	\$ 1,049,530
Fund Balance 06/30/07	\$ 183,690	\$ 112,765	\$ 213,693	\$ 3,792	\$ 132,539	\$ 646,479
Net Change	\$ (18,635)	\$ (526)	\$ (917)	\$ (335,309)	\$ (47,664)	\$ (403,051)

General Fund:

The General Fund is the chief operating fund of the City. Unless otherwise required by statute, contractual agreement or Council policy, all City revenues and expenditures are recorded in the General Fund. As of June 30, 2007, the General Fund reported a fund balance of \$183,690. This amount is a decrease of \$18,635 from the fund balance of \$202,325 reported as of June 30, 2006. The 2006/2007 original budget had called for a \$1,024 increase of fund balance.

The General Fund 2006/2007 expenditures exceeded 2006/2007 revenues by \$18,635 due to the continued general economic decline of Michigan and Genesee County in particular. Also, the new police services with Montrose Charter Township, effective January 1, 2007, exceeded the original appropriations estimate.

General Fund Budgetary Highlights:

The City of Montrose's budget is a dynamic document. Although adopted in May (prior to the start of the year), the budget is routinely amended during the course of the year to reflect changing operational demands.

Actual General Fund revenue and other financing sources totaled \$764,765, \$5,663 below the final amended budget. There were some wide variations in individual revenue accounts reflecting the tightening national and local economy.

The City's expenditures and other financing uses budget was increased by \$10,609 (1.5% above the original budget) during 2006/2007.

Actual City expenditures and other financing uses for 2006/2007 were \$17,613 below the amended budget and \$7,004 below the original budget.

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

Local Street Fund

As of June 30, 2007, the Local Street Fund reported a fund balance \$112,765, which is a decrease of \$526 from the prior year. \$110,588 of the fund balance is reported as undesignated/unreserved.

Major Street Fund

As of June 30, 2007, the Major Street Fund reported a fund balance \$213,693, which is a decrease of \$917 from the prior year. \$211,965 of the fund balance is reported as undesignated/unreserved.

Downtown Development Projects Fund

As of June 30, 2007, the Downtown Development Projects Fund reported a fund balance \$3,792, which is a decrease of \$335,309. This fund was established with the purpose of making downtown development capital improvements to the City. The reason for the significant decrease in fund balance is due to the completion of the Downtown Alley/Depot Land Project. The total fund balance is designated for capital expenditures.

Business-type Activities Funds

As the City completed 2006/2007, its business-type activities funds reported *combined* net assets of \$2,863,327. This is a net decrease of \$6,445. The net changes are summarized in the following chart.

	Sewer System Fund	Water System Fund	Total
Net Assets 06/30/06	\$ 1,499,279	\$ 1,370,493	\$ 2,869,772
Net Assets 06/30/07	\$ 1,479,621	\$ 1,383,706	\$ 2,863,327
Net Change	\$ (19,658)	\$ 13,213	\$ (6,445)

Sewer System Fund:

As of June 30, 2007, the Sewer System Fund reported net assets of \$1,479,621, a decrease of \$19,658 from the prior year. The net assets balance is divided between \$679,292 invested in capital assets, net of related debt, and \$800,329 as unrestricted.

Water System Fund:

As of June 30, 2007, the Water System Fund reported a fund balance of \$1,383,706, an increase of \$13,213 from the prior year. The net assets balance is divided between \$864,598 invested in capital assets, net of related debt; \$77,517 is restricted for debt service or water assessment, and \$441,591 as unrestricted.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - At the end of Fiscal Year 2006/2007, the City had invested \$3,964,753, and \$106,756 for the component unit, net of accumulated depreciation, in a broad range of capital assets (see table below). Additional information related to capital assets is detailed in Note D of the Financial Statements. Net Book value of capital assets at June 30, 2007 was as follows:

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

	Governmental Activities	Business- type Activities	Component Unit DDA	Total
Land	\$ 99,000	\$ 50,620	\$ 38,000	\$ 187,620
Construction in progress	152,035	17,229	-	169,264
Vehicles and equipment, net	90,887	-	-	90,887
Sewer system, net	-	625,407	-	625,407
Water system, net	-	1,560,634	-	1,560,634
Infrastructure Streets & Bridges, net	1,368,941	-	68,756	1,437,697
Capital assets, net	<u>\$ 1,710,863</u>	<u>\$ 2,253,890</u>	<u>\$ 106,756</u>	<u>\$ 4,071,509</u>

Long-term Debt - As of June 30, 2007, the City had \$1,834,795 in loans outstanding for the primary government. This level of net obligation is \$97,265 less than the obligation recorded as of June 30, 2006.

Outstanding Debt as of June 30, 2007:

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>
Primary Government				
Governmental Activities				
General Obligation Bonds	\$ 1,120,000	\$ -	\$ 40,000	\$ 1,080,000
Installment Loan	50,659	-	24,749	25,910
Compensated Absences	5,199	16,100	11,671	9,628
Business-type Activities				
Water Revenue Bonds	745,000	-	35,000	710,000
Compensated Absences	<u>11,202</u>	<u>7,988</u>	<u>9,933</u>	<u>9,257</u>
Total Reporting Entity	<u>\$ 1,932,060</u>	<u>\$ 24,088</u>	<u>\$ 121,353</u>	<u>\$ 1,834,795</u>

A more detailed discussion of the City's long-term debt obligations is presented in Note E to the financial statements.

ECONOMIC OUTLOOK:

- Property tax revenue has not kept pace with inflation.
- Health and dental insurance premiums are rising much faster than the rate of inflation. Recent enactment of a union agreement and new personnel policies requiring employee contributions for medical insurance premiums is expected to somewhat diminish the adverse fiscal impact on the city.
- Retirement costs are increasing due to numerous financial market conditions, the city's employee retirement medical insurance program and demographic changes in the workforce.
- Utility costs are rising faster than the rate of inflation.
- There has been very little private investment construction of new buildings within the City over the past few years.
- Genesee County suffers from the highest unemployment rate in Michigan because of auto industry downsizing efforts of its labor force over the past few years that continues into the present.
- State revenue sharing has actually declined over the past few years as the Michigan economy continues to struggle without a recovery on the close horizon.
- Increasing water and sanitary sewer system charges from the Genesee County Drain Commissioners' Office are having a deleterious affect on the city maintaining these public utility rate structures.

City of Montrose

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2007

CONTACTING THE CITY

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City of Montrose's Office at (810) 639-6168.

BASIC FINANCIAL STATEMENTS

City of Montrose

STATEMENT OF NET ASSETS

June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 623,078	\$ 1,180,437	\$ 1,803,515	\$ 89,053
Receivables	121,722	97,429	219,151	-
Prepays	49,135	21,577	70,712	239
Total current assets	793,935	1,299,443	2,093,378	89,292
Noncurrent assets				
Cash - restricted	-	78,105	78,105	-
Capital assets not being depreciated	251,035	67,849	318,884	38,000
Capital assets, net of accumulated depreciation	1,459,828	2,186,041	3,645,869	68,756
Total noncurrent assets	1,710,863	2,331,995	4,042,858	106,756
TOTAL ASSETS	2,504,798	3,631,438	6,136,236	196,048
LIABILITIES				
Current liabilities				
Accounts payable	39,907	36,877	76,784	1,933
Accrued liabilities	4,710	2,350	7,060	18
Accrued interest payable	10,982	8,625	19,607	-
Current portion of compensated absences	6,700	5,049	11,749	-
Current portion of long-term debt	80,910	40,000	120,910	-
Total current liabilities	143,209	92,901	236,110	1,951
Noncurrent liabilities				
Compensated absences	2,928	4,208	7,136	-
Customer deposits	-	1,002	1,002	-
Noncurrent portion of long-term debt	1,025,000	670,000	1,695,000	-
Total noncurrent liabilities	1,027,928	675,210	1,703,138	-0-
TOTAL LIABILITIES	1,171,137	768,111	1,939,248	1,951
NET ASSETS				
Invested in capital assets, net of related debt	604,953	1,543,890	2,148,843	106,756
Restricted for:				
Streets	326,458	-	326,458	-
Debt service	-	68,478	68,478	-
Water assessment	-	9,039	9,039	-
Capital projects	131,985	-	131,985	-
Unrestricted	270,265	1,241,920	1,512,185	87,341
TOTAL NET ASSETS	\$ 1,333,661	\$ 2,863,327	\$ 4,196,988	\$ 194,097

See accompanying notes to financial statements.

City of Montrose
STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit	
					Governmental Activities	Business-type Activities	Total		
Primary government:									
Governmental activities:									
General government	\$ 223,740	\$ 43,567	\$ 5,032	\$ -	\$ (175,141)	\$ -	\$ (175,141)	\$ -	
Public safety	338,329	11,171	-	-	(327,158)	-	(327,158)	-	
Public works	248,184	61,032	117,296	44,515	(25,341)	-	(25,341)	-	
Community and economic development	21,744	-	-	-	(21,744)	-	(21,744)	-	
Recreation and cultural	19,555	-	-	-	(19,555)	-	(19,555)	-	
Interest on long-term debt	46,114	-	-	-	(46,114)	-	(46,114)	-	
Total governmental activities	897,666	115,770	122,328	44,515	(615,053)	-0-	(615,053)	-0-	
Business-type activities:									
Sewer system	327,533	281,613	550	-	-	(45,370)	(45,370)	-	
Water system	377,896	289,127	80,238	-	-	(8,531)	(8,531)	-	
Total business-type activities	705,429	570,740	80,788	-0-	-0-	(53,901)	(53,901)	-0-	
Total primary government	<u>\$ 1,603,095</u>	<u>\$ 686,510</u>	<u>\$ 203,116</u>	<u>\$ 44,515</u>	(615,053)	(53,901)	(668,954)	-0-	
Component unit:									
Downtown Development Authority	<u>\$ 58,951</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	-	-	-0-	(58,951)	
General revenues:									
Property taxes					424,445	-	424,445	78,664	
State shared revenues					190,005	-	190,005	-	
Investment earnings					12,566	46,715	59,281	1,044	
Miscellaneous					3,393	741	4,134	-	
Total general revenues					630,409	47,456	677,865	79,708	
Change in net assets					15,356	(6,445)	8,911	20,757	
Net assets, beginning of the year					1,318,305	2,869,772	4,188,077	173,340	
Net assets, end of the year					\$ 1,333,661	\$ 2,863,327	\$ 4,196,988	\$ 194,097	

See accompanying notes to financial statements.

City of Montrose

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2007

		Special Revenue	
	General	Major Street	Local Street
ASSETS			
Cash and cash equivalents	\$ 155,268	\$ 216,755	\$ 114,461
Receivables			
Accounts	1,347	12,870	4,666
Special assessments	-	7,331	95,508
Prepays	45,230	1,728	2,177
TOTAL ASSETS	<u>\$ 201,845</u>	<u>\$ 238,684</u>	<u>\$ 216,812</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 14,659	\$ 17,028	\$ 7,957
Accrued liabilities	3,496	632	582
Deferred revenue	-	7,331	95,508
TOTAL LIABILITIES	18,155	24,991	104,047
FUND BALANCES			
Reserved for prepaids	45,230	1,728	2,177
Reserved for debt service	-	-	-
Reserved for rubbish levy	11,968	-	-
Unreserved			
Designated for capital expenditures	-	-	-
Undesignated, reported in:			
General Fund	126,492	-	-
Special Revenue Funds	-	211,965	110,588
TOTAL FUND BALANCES	<u>183,690</u>	<u>213,693</u>	<u>112,765</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 201,845</u>	<u>\$ 238,684</u>	<u>\$ 216,812</u>

See accompanying notes to financial statements.

Capital Projects		
Downtown Development Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ 3,792	\$ 132,802	\$ 623,078
-	-	18,883
-	-	102,839
-	-	49,135
<u>\$ 3,792</u>	<u>\$ 132,802</u>	<u>\$ 793,935</u>
\$ -	\$ 263	\$ 39,907
-	-	4,710
-	-	102,839
-0-	263	147,456
-	-	49,135
-	2,163	2,163
-	-	11,968
3,792	128,193	131,985
-	-	126,492
-	2,183	324,736
<u>3,792</u>	<u>132,539</u>	<u>646,479</u>
<u>\$ 3,792</u>	<u>\$ 132,802</u>	<u>\$ 793,935</u>

City of Montrose

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2007

Total fund balance - governmental funds \$ 646,479

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 2,135,256
Accumulated depreciation is	<u>(424,393)</u>

Capital assets, net	1,710,863
---------------------	-----------

Long-term receivables are not available to pay for current period expenditures
and are therefore deferred in the funds. These consist of:

Deferred revenue	102,839
------------------	---------

Long-term liabilities are not due and payable in the current period and
therefore are not reported in the Governmental Funds Balance Sheet.

Long-term liabilities at year-end consist of:

Direct City obligations	1,105,910
Accrued interest payable	10,982
Compensated absences	<u>9,628</u>

(1,126,520)

Net assets of governmental activities \$ 1,333,661

See accompanying notes to financial statements.

City of Montrose

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

		Special Revenue	
	General	Major Street	Local Street
REVENUES			
Taxes	\$ 437,871	\$ -	\$ -
Licenses and permits	19,332	-	-
Intergovernmental	190,005	88,881	28,415
Charges for services	68,505	-	-
Fines and forfeits	4,802	-	-
Interest and rents	40,856	4,741	1,092
Other	3,394	7,930	21,130
TOTAL REVENUES	764,765	101,552	50,637
EXPENDITURES			
Current			
General government	207,038	-	-
Public safety	338,329	-	-
Public works	119,276	82,872	70,760
Community and economic development	1,661	-	-
Recreation and cultural	19,555	-	-
Debt service			
Principal	24,749	-	-
Interest	1,814	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	712,422	82,872	70,760
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	52,343	18,680	(20,123)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	19,597
Transfers out	(70,978)	(19,597)	-
TOTAL OTHER FINANCING SOURCES (USES)	(70,978)	(19,597)	19,597
NET CHANGE IN FUND BALANCES	(18,635)	(917)	(526)
Fund balances, beginning of year	202,325	214,610	113,291
Fund balances, end of year	\$ 183,690	\$ 213,693	\$ 112,765

See accompanying notes to financial statements.

Capital Projects		
Downtown Development Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 437,871
-	-	19,332
-	15,454	322,755
-	-	68,505
-	-	4,802
691	1,510	48,890
-	5,032	37,486
691	21,996	939,641
-	-	207,038
-	-	338,329
-	-	272,908
-	20,083	21,744
-	-	19,555
-	40,000	64,749
-	44,300	46,114
336,000	36,255	372,255
336,000	140,638	1,342,692
(335,309)	(118,642)	(403,051)
-	70,978	90,575
-	-	(90,575)
-0-	70,978	-0-
(335,309)	(47,664)	(403,051)
339,101	180,203	1,049,530
\$ 3,792	\$ 132,539	\$ 646,479

City of Montrose

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2007

Net change in fund balances - total governmental funds **\$ (403,051)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	451,803
Depreciation expense		<u>(61,432)</u>

Excess of capital outlay over depreciation expense	390,371
--	---------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(26,619)
--	----------

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increases long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond and loan principal retirement	64,749
------------------------------------	--------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(5,665)	
(Increase) in accrued compensated absences		<u>(4,429)</u>
		<u>(10,094)</u>

Change in net assets of governmental activities	<u>\$ 15,356</u>
--	-------------------------

See accompanying notes to financial statements.

City of Montrose

Proprietary Funds

STATEMENT OF NET ASSETS

June 30, 2007

	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 775,312	\$ 405,125	\$ 1,180,437
Accounts receivable	43,376	54,053	97,429
Prepays	10,723	10,854	21,577
Total current assets	829,411	470,032	1,299,443
Noncurrent assets			
Cash - restricted	-	78,105	78,105
Capital assets not being depreciated	53,885	13,964	67,849
Capital assets, net of accumulated depreciation	625,407	1,560,634	2,186,041
Total noncurrent assets	679,292	1,652,703	2,331,995
TOTAL ASSETS	1,508,703	2,122,735	3,631,438
LIABILITIES			
Current liabilities			
Accounts payable	23,620	13,257	36,877
Wages payable	1,152	1,198	2,350
Accrued liabilities	-	8,625	8,625
Current portion of compensated absences	2,326	2,723	5,049
Current portion of long-term debt	-	40,000	40,000
Total current liabilities	27,098	65,803	92,901
Noncurrent liabilities			
Payable from restricted cash -			
Customer deposits payable	-	1,002	1,002
Compensated absences	1,984	2,224	4,208
Bonds payable	-	670,000	670,000
Total noncurrent liabilities	1,984	673,226	675,210
TOTAL LIABILITIES	29,082	739,029	768,111
NET ASSETS			
Invested in capital assets, net of related debt	679,292	864,598	1,543,890
Restricted for debt service	-	68,478	68,478
Restricted for water assessment	-	9,039	9,039
Unrestricted	800,329	441,591	1,241,920
TOTAL NET ASSETS	\$ 1,479,621	\$ 1,383,706	\$ 2,863,327

See accompanying notes to financial statements.

City of Montrose

Proprietary Funds

STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended June 30, 2007

	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services			
User charges	\$ 281,613	\$ 273,767	\$ 555,380
Tap in fees	-	2,800	2,800
Other	73	668	741
TOTAL OPERATING REVENUES	281,686	277,235	558,921
OPERATING EXPENSES			
Salaries and wages	49,035	61,624	110,659
Fringe benefits	28,069	32,069	60,138
Contractual service	140,382	152,143	292,525
Supplies	3,866	5,614	9,480
Utilities	5,649	6,393	12,042
Insurance	3,701	-	3,701
Repairs and maintenance	31,368	12,086	43,454
Other	6,968	18,635	25,603
Depreciation	58,495	52,520	111,015
TOTAL OPERATING EXPENSES	327,533	341,084	668,617
OPERATING LOSS	(45,847)	(63,849)	(109,696)
NONOPERATING REVENUES (EXPENSES)			
Hydrant assessments	-	12,560	12,560
Special assessments	550	80,238	80,788
Interest revenue	25,639	21,076	46,715
Interest expense	-	(36,812)	(36,812)
TOTAL NONOPERATING REVENUES (EXPENSES)	26,189	77,062	103,251
CHANGE IN NET ASSETS	(19,658)	13,213	(6,445)
Net assets, beginning of year	1,499,279	1,370,493	2,869,772
Net assets, end of year	\$ 1,479,621	\$ 1,383,706	\$ 2,863,327

See accompanying notes to financial statements.

City of Montrose

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended June 30, 2007

	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 280,484	\$ 275,826	\$ 556,310
Cash paid to suppliers	(195,981)	(245,406)	(441,387)
Cash paid for employee benefits	(29,206)	(33,315)	(62,521)
Cash paid to employees	(48,633)	(61,492)	(110,125)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	6,664	(64,387)	(57,723)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Hydrant assessments	-	12,560	12,560
Special assessments	550	80,238	80,788
Interest expense	-	(36,812)	(36,812)
Capital purchases	(16,923)	(112,080)	(129,003)
Payments on borrowings	-	(35,000)	(35,000)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(16,373)	(91,094)	(107,467)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	25,639	21,076	46,715
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	15,930	(134,405)	(118,475)
Cash and cash equivalents, beginning of year	759,382	617,635	1,377,017
Cash and cash equivalents, end of year	<u>\$ 775,312</u>	<u>\$ 483,230</u>	<u>\$ 1,258,542</u>
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating loss	\$ (45,847)	\$ (63,849)	\$ (109,696)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities			
Depreciation	58,495	52,520	111,015
(Increase) in accounts receivable	(1,202)	(898)	(2,100)
(Increase) decrease in prepaids	200	(3,559)	(3,359)
(Decrease) in accounts payable	(4,247)	(46,976)	(51,223)
Increase in wages payable	402	132	534
(Decrease) in other accrued liabilities	-	(438)	(438)
(Decrease) in compensated absences	(1,137)	(808)	(1,945)
(Decrease) in customer deposits	-	(511)	(511)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 6,664	\$ (64,387)	\$ (57,723)

See accompanying notes to financial statements.

City of Montrose

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2007

	Current Tax Collection	Delinquent Tax Collection	Total
ASSETS			
Cash	<u>\$ 76,769</u>	<u>\$ 6,478</u>	<u>\$ 83,247</u>
LIABILITIES			
Due to other governmental units	<u>\$ 76,769</u>	<u>\$ 6,478</u>	<u>\$ 83,247</u>

See accompanying notes to financial statements.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Montrose is located in Genesee County, Michigan and has a population of approximately 1,600. The City of Montrose operates with a Council form of government and provides services to its residents in many areas including general government, highways and streets, human services, and utilities services.

The City has six (6) City Council members who are elected at large for overlapping four (4) year terms and a Mayor elected at large for a two (2) year term. The Council appoints the City Manager, Treasurer, Clerk, and Assessor.

The financial statements of the City have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to City governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Montrose (primary government) and its component unit, an entity for which the government is considered to be financially accountable. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City.

2. Discretely Presented Component Unit

The component unit columns in the financial statements include the financial data of the City's component unit (Downtown Development Authority). The governing body of the Downtown Development Authority is appointed by the City Council, the Authority's budget is subject to the approval of the City Council and the City temporarily relinquishes part of its tax base to the Authority (tax increment revenues).

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component unit as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component unit and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the City's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the City's local streets.
- d. The Downtown Development Capital Projects Fund accounts for resources, which have the purpose of making capital improvements to the City's downtown area.
- e. The Sewer System Fund accounts for resources generated by providing sewer services to residents of the City; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- f. The Water System Fund accounts for resources generated by providing water services to residents of the City; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

4. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for the fiduciary agency fund since assets equal liabilities.

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Basis of Accounting - continued

Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

6. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets are prepared on a basis consistent with the modified accrual basis used to reflect actual results. The City employs the following procedures in establishing its budgetary data.

- a. Prior to April 15, the City Manager submits to the City Council a proposed operating budget for the fiscal year beginning the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to the second week of May, the budget is legally adopted by appropriating the funds necessary to operate.
- d. The budget is legally adopted at the functional level for the General Fund and Special Revenue Funds; however they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at June 30 are not carried forward to the following fiscal year.
- f. Any revisions to the budget must be approved by the City Council.

7. Cash and Cash Equivalents

Cash and cash equivalents consist of various savings and money market checking accounts and pooled investment accounts. The cash and cash equivalents are recorded at cost, which approximates market value.

8. Restricted Cash

A portion of the cash and cash equivalents of the Water System Fund is classified as restricted cash because its use is limited. The Water System Fund's restrictions are due to bond resolution requirements to maintain certain balances in separate accounts for debt service and general purpose reserves, and also for the amount of customer deposits held at June 30, 2007.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Property Tax

The City of Montrose bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the City of Montrose on July 1 and December 1 and are payable without penalty through September 15 and February 14, respectively. The July 1 levy is composed of the City's millage, 2/3 of the County's millage, special assessments, and the school taxes. The December 1 levy is composed of 1/3 of the County's millage, school taxes, and special assessments. All real property taxes not paid to the City by March 1 are turned over to the Genesee County Treasurer for collection. The Genesee County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Current Tax Collections Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

The City is permitted by Charter to levy taxes up to 20 mills (\$20 per \$1,000 of taxable valuation) for general governmental services. For the year ended June 30, 2007, the City levied 17.1776 mills per \$1,000 of assessed valuation for general governmental services. The total Taxable Value for the 2006 levy for property within the City was \$25,859,074.

10. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers. Transfers between individual governmental and individual proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

11. Compensated Absences

City employees are granted sick and vacation leave in varying amounts. In the event of termination, an employee is paid for accumulated sick and vacation time. All employees with accumulated unused sick and vacation time pay at June 30, 2007, were vested and the total due to them, along with the related payroll taxes, is recorded in the governmental-wide financial statements. For proprietary funds, the cost is recorded as a fund liability when earned.

12. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities and component unit columns. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than three (3) years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

12. Capital Assets - continued

GASB Statement No. 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending after June 30, 1980, be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The City of Montrose has capitalized infrastructure as required since implementing GASB Statement No. 34, and has reported the infrastructure in the Statement of Net Assets. The City of Montrose will retroactively capitalize the major infrastructure assets on or before June 30, 2008, as permitted by GASB Statement No. 34.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Sewer and Water systems and improvements	10 - 50 years
Equipment and machinery	3 - 12 years
Buildings	25 years
Vehicles	10 years
Infrastructure	20 - 50 years

13. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

14. Comparative Data

Comparative data for the prior year has not been presented in all funds in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2007, the carrying amounts and bank balances for each type of bank account are as follows:

<u>Account Type</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking and savings	\$ 909,995	\$ 988,333
COMPONENT UNIT		
Savings	89,053	89,053
FIDUCIARY FUNDS		
Checking and savings	<u>83,247</u>	<u>83,247</u>
TOTAL REPORTING UNIT	<u>\$ 1,082,295</u>	<u>\$ 1,160,633</u>

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2007, the City accounts were insured by the FDIC for \$200,000, and the amount of \$960,633 was uninsured and uncollateralized.

Due to significantly higher cash flow at certain periods during the year, the amount the City held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

Investments

As of June 30, 2007, the carrying amounts and market values for each type of investment as reported in the cash and cash equivalents captions on the basic financial statements are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity (years)</u>
PRIMARY GOVERNMENT			
Uncategorized pooled investment funds			
MBIA	\$ 297,208	\$ 297,208	42 days
Bank One	92,052	92,052	34 days
Public Funds Investment Trust	<u>582,365</u>	<u>582,365</u>	< 30 days
	<u>\$ 971,625</u>	<u>\$ 971,625</u>	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2007, the Public Funds Investment Trust was rated AAA by Standard and Poor's. The Bank One investment was rated AAA by Moody's. The MBIA - Michigan Class investment is not rated.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the City's cash requirements.

Concentration of credit risk

The City will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

The cash and cash equivalents and investments referred to above have been reported in the cash and cash equivalents caption on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2007:

	<u>Primary Government</u>	<u>Component Unit</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 1,803,515	\$ 89,053	\$ 83,247	\$ 1,975,815
Cash - restricted	<u>78,105</u>	<u>-</u>	<u>-</u>	<u>78,105</u>
	<u>\$ 1,881,620</u>	<u>\$ 89,053</u>	<u>\$ 83,247</u>	<u>\$ 2,053,920</u>

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to nonmajor governmental funds from:	
General Fund	<u>\$ 70,978</u>

Transfers to Local Streets Fund from:	
Major Streets Fund	<u>\$ 19,597</u>

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

PRIMARY GOVERNMENT

	<u>Balance July 1, 2006</u>	<u>Additions/ Reclassifications</u>	<u>Deletions/ Reclassifications</u>	<u>Balance June 30, 2007</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 99,000	\$ -	\$ -	\$ 99,000
Construction in progress	<u>113,879</u>	<u>86,789</u>	<u>(48,633)</u>	<u>152,035</u>
Total capital assets, not being depreciated	212,879	86,789	(48,633)	251,035
Capital assets being depreciated				
Buildings	68,800	-	-	68,800
Furniture and equipment	112,055	8,550	-	120,605
Vehicles	248,500	-	-	248,500
Infrastructure	<u>1,041,219</u>	<u>405,097</u>	<u>-</u>	<u>1,446,316</u>
Total capital assets, being depreciated	1,470,574	413,647	-0-	1,884,221
Less accumulated depreciation for:				
Buildings	(68,800)	-	-	(68,800)
Furniture and equipment	(39,610)	(6,608)	-	(46,218)
Vehicles	(224,929)	(7,071)	-	(232,000)
Infrastructure	<u>(29,622)</u>	<u>(47,753)</u>	<u>-</u>	<u>(77,375)</u>
Total accumulated depreciation	<u>(362,961)</u>	<u>(61,432)</u>	<u>-0-</u>	<u>(424,393)</u>
Net capital assets being depreciated	<u>1,107,613</u>	<u>352,215</u>	<u>-0-</u>	<u>1,459,828</u>
Capital assets, net	<u>\$ 1,320,492</u>	<u>\$ 439,004</u>	<u>\$ (48,633)</u>	<u>\$ 1,710,863</u>

Depreciation expense was charged to activities of the following governmental activities:

General government	\$ 6,608
Public works	<u>54,824</u>
Total depreciation expense	<u>\$ 61,432</u>

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D: CAPITAL ASSETS - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

	Balance July 1, 2006	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2007
Business-type activities				
(Sewer system)				
Capital assets not being depreciated				
Land	\$ 50,620	\$ -	\$ -	\$ 50,620
Construction in progress	<u>10,171</u>	<u>12,648</u>	<u>(19,554)</u>	<u>3,265</u>
Total capital assets, not being depreciated	60,791	12,648	(19,554)	53,885
Capital assets being depreciated				
Sewer system	2,330,592	19,554	-	2,350,146
Equipment	<u>6,921</u>	<u>4,275</u>	<u>-</u>	<u>11,196</u>
Total capital assets, being depreciated	2,337,513	23,829	-0-	2,361,342
Less accumulated depreciation for:				
Sewer system	(1,670,519)	(58,067)	-	(1,728,586)
Equipment	<u>(6,921)</u>	<u>(428)</u>	<u>-</u>	<u>(7,349)</u>
Total accumulated depreciation	<u>(1,677,440)</u>	<u>(58,495)</u>	<u>-0-</u>	<u>(1,735,935)</u>
Net capital assets being depreciated	<u>660,073</u>	<u>(34,666)</u>	<u>-0-</u>	<u>625,407</u>
Capital assets, net	<u>\$ 720,864</u>	<u>\$(22,018)</u>	<u>\$(19,554)</u>	<u>\$ 679,292</u>
Business-type activities				
(Water system)				
Capital assets not being depreciated				
Construction in progress	\$ 53,949	\$ 107,806	\$(147,791)	\$ 13,964
Capital assets being depreciated				
Water system	2,291,558	147,791	-	2,439,349
Equipment	<u>6,922</u>	<u>4,274</u>	<u>-</u>	<u>11,196</u>
Total capital assets, being depreciated	2,298,480	152,065	-0-	2,450,545
Less accumulated depreciation for:				
Water system	(830,469)	(52,092)	-	(882,561)
Equipment	<u>(6,922)</u>	<u>(428)</u>	<u>-</u>	<u>(7,350)</u>
Total accumulated depreciation	<u>(837,391)</u>	<u>(52,520)</u>	<u>-0-</u>	<u>(889,911)</u>
Net capital assets being depreciated	<u>1,461,089</u>	<u>99,545</u>	<u>-0-</u>	<u>1,560,634</u>
Capital assets, net	<u>\$ 1,515,038</u>	<u>\$ 207,351</u>	<u>\$(147,791)</u>	<u>\$ 1,574,598</u>

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE D: CAPITAL ASSETS - CONTINUED

COMPONENT UNIT

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Downtown Development Authority				
Capital assets not being depreciated				
Land	\$ 38,000	\$ -	\$ -	\$ 38,000
Capital assets being depreciated				
Infrastructure	98,223	-	-	98,223
Less accumulated depreciation for:				
Infrastructure	(19,644)	(9,823)	-	(29,467)
Net capital assets being depreciated	78,579	(9,823)	-0-	68,756
Capital assets, net	\$ 116,579	\$ (9,823)	\$ -0-	\$ 106,756

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
2006 General Obligation Bonds	\$ 405,000	\$ -	\$ -	\$ 405,000	\$ 15,000
2005 General Obligation Bonds	715,000	-	40,000	675,000	40,000
Installment loan	50,659	-	24,749	25,910	25,910
Accumulated sick/vacation	5,199	16,100	11,671	9,628	6,700
	1,175,858	16,100	76,420	1,115,538	87,610
Business-type activities					
Enterprise Funds					
Water System Fund					
1981 Water Revenue Bonds	745,000	-	35,000	710,000	40,000
Accumulated sick/vacation	5,755	3,994	5,439	4,310	2,723
	750,755	3,994	40,439	714,310	42,723
Sewer System Fund					
Accumulated sick/vacation	5,447	3,994	4,494	4,947	2,326
	756,202	7,988	44,933	719,257	45,049
TOTAL PRIMARY GOVERNMENT	\$ 1,932,060	\$ 24,088	\$ 121,353	\$ 1,834,795	\$ 132,659

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE E: LONG-TERM DEBT - CONTINUED

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

Accrued Sick/Vacation

Individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave. The dollar amounts of these vested rights including related payroll taxes, which have been accrued in the financial statements either on the respective fund Balance Sheet or the governmental-wide financial statements, amounted to approximately \$18,885 at June 30, 2007. Of this amount, \$9,257 is recorded as a liability within the Enterprise funds, in accordance with criteria disclosed in Note A.

General Obligation Bonds

\$405,000 Downtown Development Authority Bonds, dated May 1, 2006, due in annual installments ranging from \$15,000 to \$50,000 through September 1, 2020, with interest ranging from 4.50 to 4.60 percent, payable semi-annually. \$ 405,000

\$750,000 Limited Tax General Obligation Bonds, dated May 1, 2005, due in annual installments ranging from \$40,000 to \$65,000 through May 1, 2020, with interest ranging from 4.00 to 5.00 percent, payable semi-annually. 675,000

\$ 1,080,000

Revenue Bonds

\$940,000 1981 Water Revenue Bonds, due in annual installments ranging from \$25,000 to \$70,000 through April 1, 2021 with interest at 5.00 percent, payable semi-annually. \$ 710,000

Installment Loan Payable

\$74,055 Installment Loan Payable for a backhoe, dated May 6, 2005, due in monthly payments ranging from \$2,116 to \$2,205, with interest of 4.60 percent. \$ 25,910

The annual requirements to pay the debt principal and interest outstanding for the bonds are as follows:

Year Ending June 30,	<u>General Obligation</u>		<u>Revenue Bonds</u>		<u>Installment Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 55,000	\$ 46,691	\$ 40,000	\$ 34,500	\$ 25,910	\$ 640
2009	55,000	44,016	40,000	32,500	-	-
2010	60,000	41,341	40,000	30,500	-	-
2011	65,000	38,753	45,000	28,500	-	-
2012	65,000	36,053	45,000	26,250	-	-
2013-2017	415,000	133,009	275,000	94,000	-	-
2018-2021	<u>365,000</u>	<u>33,529</u>	<u>225,000</u>	<u>22,250</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,080,000</u>	<u>\$ 373,392</u>	<u>\$ 710,000</u>	<u>\$ 268,500</u>	<u>\$ 25,910</u>	<u>\$ 640</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE F: RISK MANAGEMENT

The City participates in a pool, the Michigan Township Participating Plan with other municipalities for various risks of loss including employer's liability, errors and omissions, and property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

The City also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The City has not been informed of any special assessments being required.

NOTE G: RETIREMENT PLAN

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries.

Funding Policy

The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees, unless the employer contribution exceeds 25%.

Annual Pension Cost

For year ended June 30, 2007, the City's annual pension cost of \$50,822 for the plan was equal to the City's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include a (a) 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty years.

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE G: RETIREMENT PLAN - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 334,075	\$ 367,435	\$ 419,306
Actuarial accrued liability (AAL) (entry age)	744,335	803,162	840,754
Unfunded AAL	410,260	435,727	421,448
Funded ratio	45 %	46 %	50 %
Covered payroll	125,454	197,533	215,846
UAAL as a percentage of covered payroll	327 %	221 %	195 %

	Year Ended June 30,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 34,587	\$ 45,984	\$ 50,822
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE H: POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note G, the City provides post-employment health care benefits to all of its retired employees who meet eligibility requirements. Currently, the City is paying the health care premium for one (1) retiree. During the year, approximately \$12,658 was paid for post-employment health care.

The Governmental Accounting Standards Board has released Statement No. 45, Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions. This pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" post-employment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. This pronouncement is effective for the City of Montrose for the year ended June 30, 2010.

NOTE I: BUILDING CODE FINANCIAL INFORMATION

The City elected to report the financial activities of the building and code enforcement department in the General Fund. The following is the required information as it relates to this department for the year ended June 30, 2007:

REVENUES	
Building permits	\$ 4,748
EXPENDITURES	
Contracted services	(7,519)
EXCESS OF REVENUES (UNDER) EXPENDITURES	<u>\$(2,771)</u>

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE J: FUND EQUITY RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditure or has been legally segregated for a specific future use. Designated fund equity indicates that portion of fund balance or net assets with the City has set aside for specific purposes. These reserves and designations are recorded at the fund level to indicate management plans for these funds.

The following are fund balance reserves as of June 30, 2007:

PRIMARY GOVERNMENT

General Fund

Reserved for

Prepays

\$ 45,230

Rubbish levy

11,968

57,198

Special Revenue Funds

Major Street

Reserved for prepaids

1,728

Local Street

Reserved for prepaids

2,177

3,905

Debt Service Funds

Downtown Development Bonds Fund

Reserved for debt service

2,163

\$ 63,266

COMPONENT UNIT

Downtown Development Authority Fund

Reserved for prepaids

\$ 239

The following are fund balance designations as of June 30, 2007:

Capital Project Funds

Capital Projects Fund

Designated for capital expenditures

\$ 128,193

Downtown Development Projects Fund

Designated for capital expenditures

3,792

\$ 131,985

NOTE K: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2007:

City of Montrose

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE K: RESTRICTED NET ASSETS - CONTINUED

PRIMARY GOVERNMENT	
Governmental Activities	
Restricted for streets	
Major Street	\$ 213,693
Local Street	<u>112,765</u>
	<u>\$ 326,458</u>
 Restricted for capital projects	 <u>\$ 131,985</u>
 Business-type Activities	
Restricted for debt service	
Water System	<u>\$ 68,478</u>
 Restricted for water assessment	
Water System	<u>\$ 9,039</u>

NOTE L: CONTRACTUAL COMMITMENTS

The City has entered into a contract for the Park Street Sanitary & Street Construction Project. The amount of the contractual commitment outstanding as of June 30, 2007, is \$331,403 for which the City will use existing fund balance to cover this commitment.

The City has entered into a contract for the Maple Street Reconstruction. The amount of the contractual commitment outstanding as of June 30, 2007, is 190,512 for which the City will use existing fund balance to cover this commitment.

REQUIRED SUPPLEMENTARY INFORMATION

City of Montrose

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 399,011	\$ 399,011	\$ 395,774	\$ (3,237)
Fees in lieu of taxes	14,000	14,000	20,461	6,461
Penalties and interest	10,300	10,300	8,211	(2,089)
Administration fees	12,400	12,400	13,425	1,025
Total taxes	435,711	435,711	437,871	2,160
Licenses and permits				
Cable television license	12,100	12,100	12,963	863
City licenses and permits	10,100	10,100	6,369	(3,731)
Total licenses and permits	22,200	22,200	19,332	(2,868)
Intergovernmental				
State - sales tax	193,063	193,063	190,005	(3,058)
Charges for services				
Solid waste	51,416	51,416	51,326	(90)
Administration charges	15,000	15,000	17,009	2,009
Other	250	250	170	(80)
Total charges for services	66,666	66,666	68,505	1,839
Fines and forfeits				
Parking	6,600	5,600	4,802	(798)
Interest and rents				
Interest	5,000	5,000	4,532	(468)
Rents	54,688	34,688	36,324	1,636
Total interest and rents	59,688	39,688	40,856	1,168
Other	7,500	7,500	3,394	(4,106)
TOTAL REVENUES	791,428	770,428	764,765	(5,663)

City of Montrose

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES				
General government				
Legislative	\$ 45,460	\$ 44,537	\$ 44,516	\$ 21
City Manager	49,516	49,516	48,108	1,408
Elections	3,369	2,069	1,605	464
Assessor	13,779	14,429	14,112	317
Clerk	53,385	46,685	44,441	2,244
Board of Review	661	661	603	58
Treasurer	39,244	38,344	36,897	1,447
Other	17,223	17,223	16,756	467
Total general government	222,637	213,464	207,038	6,426
Public safety				
Police services	266,552	286,769	280,810	5,959
Fire services	49,735	50,000	50,000	-0-
Building and code enforcement	10,000	10,000	7,519	2,481
Total public safety	326,287	346,769	338,329	8,440
Public works				
Department of public works	47,474	44,474	44,101	373
Street lighting	23,000	23,600	23,575	25
Sanitation	51,416	51,616	51,600	16
Total public works	121,890	119,690	119,276	414
Community and economic development	3,111	3,111	1,661	1,450
Recreation and cultural				
Senior citizens center	1,300	2,300	2,034	266
Parks and recreation	13,738	14,238	13,621	617
Library	3,900	3,900	3,900	-0-
Total recreation and cultural	18,938	20,438	19,555	883

City of Montrose

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
EXPENDITURES - CONTINUED				
Debt service				
Principal	\$ 24,749	\$ 24,749	\$ 24,749	\$ -0-
Interest	1,814	1,814	1,814	-0-
Total debt service	26,563	26,563	26,563	-0-
TOTAL EXPENDITURES	719,426	730,035	712,422	17,613
EXCESS OF REVENUES OVER EXPENDITURES	72,002	40,393	52,343	11,950
OTHER FINANCING (USES)				
Transfer out	(70,978)	(70,978)	(70,978)	-0-
NET CHANGE IN FUND BALANCE	1,024	(30,585)	(18,635)	11,950
Fund balance, beginning of year	202,325	202,325	202,325	-0-
Fund balance, end of year	<u>\$ 203,349</u>	<u>\$ 171,740</u>	<u>\$ 183,690</u>	<u>\$ 11,950</u>

City of Montrose

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 88,407	\$ 88,407	\$ 88,881	\$ 474
Interest and rents	2,700	2,700	4,741	2,041
Other	8,066	8,066	7,930	(136)
TOTAL REVENUES	99,173	99,173	101,552	2,379
EXPENDITURES				
Current				
Public Works	269,914	125,029	82,872	42,157
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(170,741)	(25,856)	18,680	44,536
OTHER FINANCING (USES)				
Transfer out	(19,500)	(19,600)	(19,597)	3
NET CHANGE IN FUND BALANCE	(190,241)	(45,456)	(917)	44,539
Fund balance, beginning of year	214,610	214,610	214,610	-0-
Fund Balance, end of year	\$ 24,369	\$ 169,154	\$ 213,693	\$ 44,539

City of Montrose

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental	\$ 28,764	\$ 28,764	\$ 28,415	\$ (349)
Interest and rents	500	500	1,092	592
Other	32,552	32,552	21,130	(11,422)
TOTAL REVENUES	61,816	61,816	50,637	(11,179)
EXPENDITURES				
Current				
Public Works	80,705	80,389	70,760	9,629
EXCESS OF REVENUES (UNDER) EXPENDITURES	(18,889)	(18,573)	(20,123)	(1,550)
OTHER FINANCING SOURCES				
Transfer in	19,500	19,600	19,597	3
NET CHANGE IN FUND BALANCE	611	1,027	(526)	(1,547)
Fund balance, beginning of year	113,291	113,291	113,291	-0-
Fund Balance, end of year	\$ 113,902	\$ 114,318	\$ 112,765	\$ (1,547)

OTHER SUPPLEMENTARY INFORMATION

City of Montrose
Nonmajor Governmental Funds
COMBINING BALANCE SHEET
June 30, 2007

	Special Revenue	Debt Service	
	Depot Fund	Non-Voted Bonds	Downtown Development Bonds
ASSETS			
Cash and cash equivalents	\$ 2,446	\$ -	\$ 2,163
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 263	\$ -	\$ -
FUND BALANCES			
Reserved for debt service	-	-	2,163
Unreserved			
Designated for capital expenditures	-	-	-
Undesignated, reported in Special Revenue Funds	2,183	-	-
TOTAL FUND BALANCES	2,183	-0-	2,163
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,446	\$ -0-	\$ 2,163

<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
<u>\$ 128,193</u>	<u>\$ 132,802</u>
\$ -	\$ 263
-	2,163
128,193	128,193
<u>-</u>	<u>2,183</u>
<u>128,193</u>	<u>132,539</u>
<u>\$ 128,193</u>	<u>\$ 132,802</u>

City of Montrose

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2007

	Special Revenue	Debt Service	
	Depot Fund	Non-Voted Bonds	Downtown Development Bonds
REVENUES			
Intergovernmental	\$ -	\$ -	\$ 15,454
Interest and rents	72	-	29
Other	5,032	-	-
TOTAL REVENUES	5,104	-0-	15,483
EXPENDITURES			
Current			
Community and economic development	20,083	-	-
Debt Service			
Principal	-	40,000	-
Interest	-	30,978	13,322
Capital outlay	-	-	-
TOTAL EXPENDITURES	20,083	70,978	13,322
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(14,979)	(70,978)	2,161
OTHER FINANCING SOURCES			
Transfers in	-	70,978	-
NET CHANGE IN FUND BALANCES	(14,979)	-0-	2,161
Fund balances, beginning of year	17,162	-	2
Fund balances, end of year	\$ 2,183	\$ -0-	\$ 2,163

Capital Projects	Total Nonmajor Governmental Funds
Capital Projects	
\$ -	\$ 15,454
1,409	1,510
-	5,032
1,409	21,996
-	20,083
-	40,000
-	44,300
36,255	36,255
36,255	140,638
(34,846)	(118,642)
-	70,978
(34,846)	(47,664)
163,039	180,203
\$ 128,193	\$ 132,539

City of Montrose
Component Unit Fund
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2007

	Special Revenue
	<u>Downtown Development Authority</u>
ASSETS	
Cash	\$ 89,053
Prepays	<u>239</u>
TOTAL ASSETS	<u>\$ 89,292</u>
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 1,933
Accrued liabilities	<u>18</u>
Total liabilities	1,951
FUND BALANCE	
Reserved for prepaids	239
Unreserved - undesignated	<u>87,102</u>
Total fund balance	<u>87,341</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 89,292</u>

City of Montrose

Component Unit Fund

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2007

Fund balance - governmental fund	\$ 87,102
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Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 136,223	
Accumulated depreciation is	<u>(29,467)</u>	
Capital assets, net		<u>106,756</u>

Net assets of governmental activities	<u>\$ 193,858</u>
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City of Montrose

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

Year Ended June 30, 2007

	Special Revenue
	<u>Downtown Development Authority</u>
REVENUES	
Taxes	\$ 78,664
Interest	<u>1,044</u>
TOTAL REVENUES	79,708
EXPENDITURES	
Current	
Community and economic development	<u>49,128</u>
NET CHANGE IN FUND BALANCE	30,580
Fund balance, beginning of year	<u>56,761</u>
Fund balance, end of year	<u>\$ 87,341</u>

City of Montrose

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2007

Net change in fund balance - governmental fund	\$ 30,580
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	<u>(9,823)</u>
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Change in net assets of governmental activities	<u>\$ 20,757</u>
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Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Honorable Mayor and
Members of the City Council
City of Montrose
Montrose, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Montrose as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 14, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Montrose's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control over financial reporting, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting:

2007-1 PREPARATION OF FINANCIAL STATEMENTS

Governmental entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the City rests with the City's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting).

2007-1 PREPARATION OF FINANCIAL STATEMENTS - CONTINUED

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at the City of Montrose. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

As a result of this condition, the employees and/or management do not possess the qualifications necessary to prepare the City's annual financial statements and notes to the financial statements in accordance with GAAP. The City relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

We recommend the City consider obtaining the proper training for the appropriate staff members to assure that they are able to fully understand what goes into the preparation of the annual audited financial statements and so that they can take responsibility for the preparation of the annual audited financial statements, assure there are no material misstatements, and assure there are appropriate disclosures in accordance with accounting principles generally accepted in the United States of America.

2007-2 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Material journal entries to properly account for transactions that occurred during the year were proposed by the auditors. These misstatements were not detected by the City's internal control over financial reporting. Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

We recommend that the City take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We consider the deficiencies identified above as 2007-1 and 2007-2 to be material weaknesses in internal control over financial reporting.

Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we became aware of a certain matter that is an opportunity for the City to strengthen management's control and the operational efficiency of the accounting functions. This suggestion is a result of our evaluation of the City's internal controls and our discussions with management. However, providing an opinion on other matters was not an objective of our audit, and accordingly, we do not express such an opinion.

2007-3 ALLOCATION OF EXPENDITURES

During the course of our audit, it was noted that the City had allocated expenditures for several different functions (administrative time and various expenditures (postage, internet, etc.) to the Water and Sewer Funds). Based on our discussions with management it was determined that the City had no reasonable basis for these allocations and that these allocations were made based upon employee estimates of time spent within certain functions of their daily work.

We suggest that the City document their basis for these allocations and have available supporting documents for these allocations (time studies, etc.).

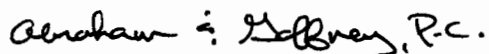
2007-4 RETIREE HEALTH CARE BENEFITS

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the government-wide financials statements, rather than the individual fund level. Therefore, the manner in which retiree health care benefits are budgeted are not required to change, unless you begin funding the benefits.

The new pronouncement will require a valuation of the obligation to provide retiree health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government-wide statement of net assets. This valuation will need to be performed by an actuary only if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, plus retirees and beneficiaries currently receiving benefits. Plans with fewer than 100 participants may either hire an actuary, or perform the calculation themselves (at least every three (3) years).

This statement is effective for the fiscal year beginning July 1, 2009. Remember that planning to make the annual recommended contribution generally requires up to three to six months for an actuarial valuation plus six months lead time to work the numbers into the budget. Therefore, we recommend that you begin the actuarial valuation at least one year prior to the above dates. The GASB statement has provided substantial incentive to fund the obligation in accordance with the annual recommended contribution. In addition to the "interperiod equity" issue of paying for a service as you use it, the GASB has directed that lower rates of return be used for evaluating the annual recommended contribution in situations where the recommended contribution is not being funded. This will significantly increase the calculation of the following year's contribution. So - funding the contribution will actually reduce your long run cost.

This report is intended solely for the information and use of management, the Mayor, and members of the City Council of the City of Montrose, others within the City, and applicable departments of the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

November 14, 2007